



United States
General Accounting Office
Washington, D.C. 20548

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Resources, Community, and
Economic Development Division

B-279128

February 6, 1998

The Honorable John H. Chafee
Chairman, Committee on Environment
and Public Works
United States Senate

Subject: Highway Trust Fund: Possible Impact if It Had Financed All Highway Expenditures

Dear Mr. Chairman:

The Highway Trust Fund was established in 1956 to finance the federal-aid highway program. In 1982, the fund was divided into a highway account and a mass transit account. The Highway Trust Fund is supported through federal highway user taxes, such as those on motor fuels (gasoline, gasohol, and diesel), tires, and trucks.¹ When the cumulative highway user revenues credited to the Fund exceed the cumulative expenditures, a positive account balance exists. This balance is invested in public debt securities, and interest earned on these securities is considered revenue to the Fund.

At the end of fiscal year 1997, the highway account had an estimated balance of \$14.6 billion. Proponents of higher spending levels from the Highway Trust Fund argue that while it has a steady stream of dedicated tax receipts, budgeting actions have restricted outlays from it in order to create positive Trust Fund balances, thereby lowering the reported deficit.² The proponents hold that this breaks the implied agreement underlying the original tax enactment—that is, that the tax receipts would be fully used for highway and

¹The Highway Trust Fund essentially exists only as an accounting mechanism. Highway user taxes are actually deposited in the General Fund of the U.S. Treasury, and a paper transfer of these taxes is made to the Trust Fund.

²Budget Issues: Trust Funds and Their Relationship to the Federal Budget, (GAO/AIMD-88-55, Sept. 30, 1988).

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related expenses. However, others argue that the General Fund of the U.S. Treasury has subsidized road building for decades, and if it were not for this subsidy, a positive Highway Trust Fund balance would not exist. Therefore, you asked us to determine what the Highway Trust Fund highway account balance would be if it had financed not only the federal-aid highway program, but other federal highway expenditures that have historically been paid from the General Fund of the U.S. Treasury. As agreed with your office, our assessment includes both the crediting of interest to the Highway Trust Fund when it has a positive balance and the paying of interest by the Highway Trust Fund when it has a negative balance.

Of the 3.9 million miles of public roads in the United States, 953,009 miles are considered eligible for funding through the Highway Trust Fund.³ Although these roads represent only a quarter of the total road and street mileage, they accounted for 85 percent of the vehicle miles traveled in 1995. In addition, highways have received federal support from the General Fund of the U.S. Treasury provided through various other federal agencies and programs, such as the Forest Service, National Park Service, Department of Defense, and Department of Energy. Over the years, new or different roads have also been added to the list of roads funded by the Highway Trust Fund. For instance, starting in fiscal year 1972, funding for roads and trails in national forests shifted from the General Fund to the Highway Trust Fund. Similarly, in fiscal year 1983, the funding source for indian reservation roads changed from the General Fund to the Highway Trust Fund.

From fiscal year 1957 through fiscal year 1996, the Federal Highway Administration's (FHWA) data indicate that the Highway Trust Fund's highway account was credited with \$320.1 billion in tax receipts and \$20.2 billion in interest and had expenditures of \$328.7 billion.⁴ Of note is the fact that the

³Under current law, expenditures from the highway account of the Highway Trust Fund are generally restricted to those roads that are not classified as local or rural minor collector roads. However, there are a few exceptions. For instance, the Congress authorized funds for some demonstration projects that would not have been eligible for federal highway program funds because the projects were for local roads.

⁴Throughout this letter, reference to the highway account refers to the Highway Trust Fund established in 1956 and the highway component following passage of the Surface Transportation Assistance Act of 1982 that divided the Fund in fiscal year 1983 into a highway account and a mass transit account.

expenditures exceeded the tax receipts during this period. However, the interest accrued on the highway account balance was able to cover the difference as well as result in a positive balance of \$11.6 billion.

In addition, the General Fund of the U.S. Treasury expended \$39.3 billion for highways from fiscal year 1957 through fiscal year 1996, according to FHWA's data. Figure I reflects the impact of assuming that these expenditures had instead been paid for through the Highway Trust Fund's highway account. A negative balance would have occurred in fiscal year 1960. By fiscal year 1996, the highway account balance would have had a negative balance of \$152.6 billion, largely because of the fact that from fiscal year 1960 onward, the increasing negative balance would have created a growing interest debt owed to the General Fund.

Specifically, from fiscal year 1957 through fiscal year 1996, General Fund highway expenses totaled \$39.3 billion. If these expenses had been paid through the highway account of the Highway Trust Fund, the interest that would not have been earned by the highway account or would have been due to the General Fund of the U.S. Treasury would have totaled \$124.9 billion.⁵ Together, General Fund highway expenses and interest not earned by the highway account or due to the General Fund would have totaled \$164.2 billion. If this amount were deducted from the actual fiscal year 1996 highway account balance of \$11.6 billion, the highway account balance reflecting the impact of not paying any highway expenditures from the General Fund would have been a negative \$152.7 billion.⁶

While this analysis shows a negative balance, FHWA notes that this could not have occurred because (1) there is a legislative requirement, referred to as the Byrd Amendment,⁷ designed to ensure that sufficient funds will be available to liquidate commitments, and (2) the Congress would probably have increased revenues or adjusted authorizations to prevent the shortfall. (Enc. I provides additional details along with a table showing what the annual balance of the

⁵For fiscal year 1957, the analysis uses the interest rate at the close of the year. For fiscal years 1958 through 1996, the interest rate used was the weighted average rate for investments of the Highway Trust Fund on the last day of the prior year.

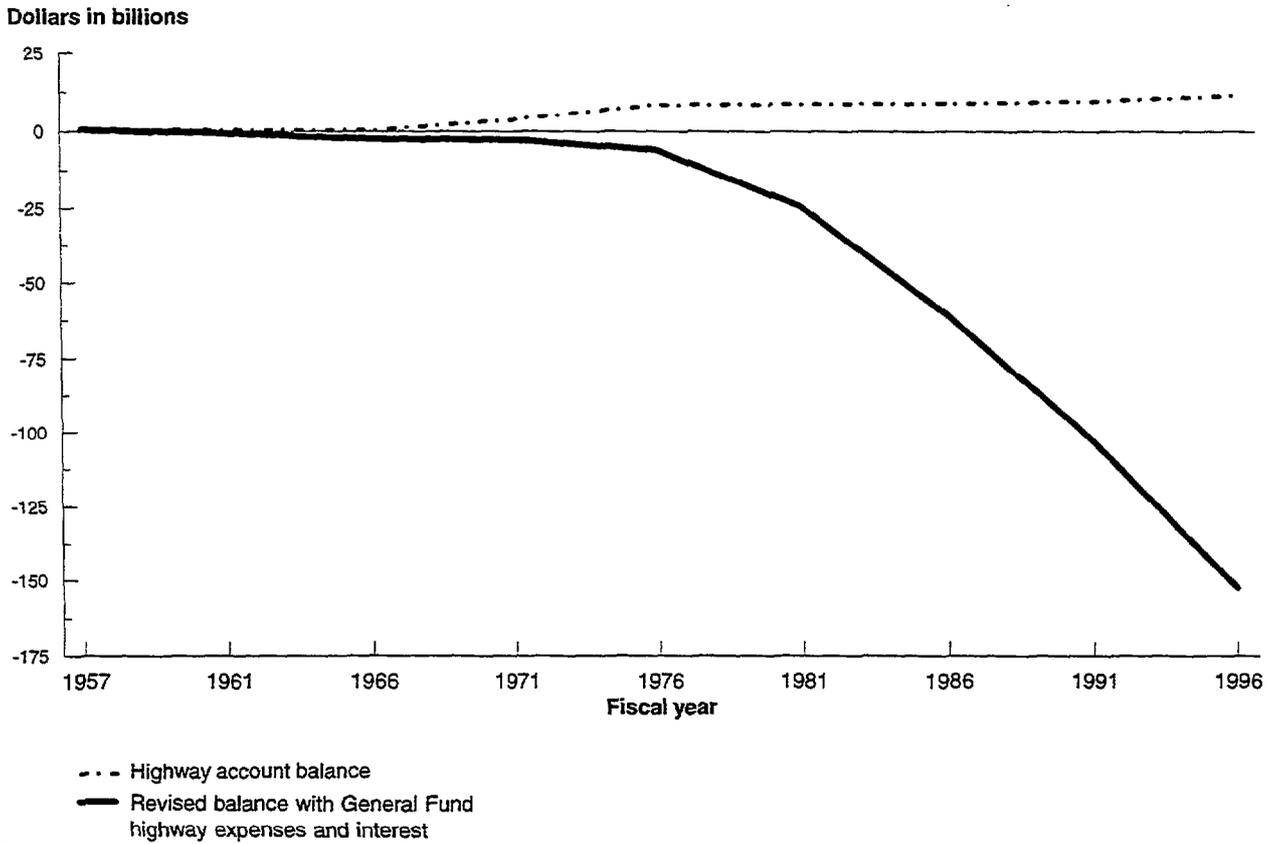
⁶Numbers do not add up to the total because of rounding.

⁷26 U.S.C. section 9503 (d).

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Highway Trust Fund's highway account would have been if it had paid for all highway expenditures.)

Figure 1: Estimated Status of the Highway Trust Fund's Highway Account if the Highway Account Had Funded Highway Expenditures Historically Paid From the General Fund



Source: FHWA.

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AGENCY COMMENTS

We provided a draft of this report to the Department of Transportation for review and comment. We received technical comments and clarifications and incorporated them where appropriate.

SCOPE AND METHODOLOGY

Our analysis is based on FHWA's data on highway revenues and expenditures from the highway account of the Highway Trust Fund, as well as FHWA's data on historical expenditures for highways from the General Fund of the U.S. Treasury. The financial estimates are based on the assumption that the highway account of the Highway Trust Fund assumed the highway expenditures paid through the U. S. Treasury's General Fund. We analyzed these data and the projected impact of historically funding all federal highway expenses through the highway account of the Highway Trust Fund from fiscal year 1957 through fiscal year 1996. We performed our work in January 1998 in accordance with generally accepted government auditing standards.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after the date of this letter. At that time, we will send copies to the Secretary of Transportation, the Administrator of FHWA, and other interested parties. We will also make copies available to others on request.

Please call me at (202) 512-9696 if you have any questions. Major contributors to this report were Curtis Groves, Yvonne Pufahl, and Ron Stouffer.

Sincerely yours,



Phyllis F. Scheinberg
Associate Director, Transportation
Issues

Enclosure

POTENTIAL EFFECT OF FUNDING THROUGH THE HIGHWAY TRUST
FUND'S HIGHWAY ACCOUNT THE FEDERAL HIGHWAY EXPENSES
PAID THROUGH THE GENERAL FUND OF THE U.S. TREASURY

Table I.1 focuses on the highway expenses paid through the General Fund of the U.S. Treasury and estimates the impact of paying these expenditures through the highway account of the Highway Trust Fund. In fiscal year 1957, the first year of operation of the Highway Trust Fund, there is no beginning balance. However, in subsequent years, the ending balance at the close of a fiscal year is rolled over and becomes the beginning balance the next fiscal year. When the Highway Trust Fund's balance is positive, it is invested in public debt securities, and interest earned on these securities is considered revenue to the fund. However, in years when the balance is negative, interest is assumed to be paid by the Highway Trust Fund to the General Fund. In fact, as shown in table I.1, the balance is negative starting in fiscal year 1960 and continues steadily in that direction through fiscal year 1996, when the balance reaches a negative \$152.7 billion.

Table I.1: Estimated Status of the Highway Trust Fund's Highway Account if the Highway Account Had Funded Highway Expenditures Historically Paid From the General Fund

Dollars in millions

Fiscal year	Beginning General Fund highway balance	General Fund highway expenses	Interest	Ending General Fund highway balance	Highway account actual balance	Revised balance with General Fund highway expenses and interest
1957	n/a	-\$162	-\$2	-\$164	\$516	\$352
1958	-164	-168	-7	-339	1,049	710
1959	-339	-156	-11	-506	524	18
1960	-506	-197	-17	-720	119	-601
1961	-720	-207	-29	-956	299	-657
1962	-956	-227	-32	-1,215	471	-744
1963	-1,215	-265	-44	-1,524	747	-777
1964	-1,524	-276	-56	-1,856	641	-1,215
1965	-1,856	-242	-72	-2,170	285	-1,885
1966	-2,170	-409	-89	-2,668	244	-2,424
1967	-2,668	-448	-119	-3,235	725	-2,510
1968	-3,235	-457	-143	-3,835	982	-2,853
1969	-3,835	-479	-194	-4,508	1,521	-2,987
1970	-4,508	-605	-247	-5,360	2,612	-2,748
1971	-5,360	-645	-341	-6,346	3,652	-2,694
1972	-6,346	-589	-340	-7,275	4,490	-2,785
1973	-7,275	-897	-386	-8,558	5,591	-2,967
1974	-8,558	-1,112	-547	-10,217	7,667	-2,550
1975	-10,217	-1,229	-758	-12,204	9,597	-2,607
1976	-12,204	-1,341	-853	-14,398	8,442	-5,956
1977	-14,398	-1,511	-985	-16,894	9,597	-7,297
1978	-16,894	-1,784	-1,115	-19,793	11,106	-8,687
1979	-19,793	-2,319	-1,470	-23,582	11,998	-11,584
1980	-23,582	-2,080	-2,063	-27,725	10,433	-17,292
1981	-27,725	-2,553	-2,970	-33,248	8,693	-24,555
1982	-33,248	-2,065	-4,003	-39,316	8,480	-30,836
1983	-39,316	-1,935	-5,002	-46,253	8,495	-37,758
1984	-46,253	-1,987	-5,079	-53,319	9,644	-43,675
1985	-53,319	-1,801	-6,039	-61,159	9,794	-51,365
1986	-61,159	-1,640	-6,660	-69,459	8,920	-60,539
1987	-69,459	-1,131	-6,823	-77,413	8,845	-68,568
1988	-77,413	-968	-6,719	-85,100	8,453	-76,647
1989	-85,100	-694	-7,370	-93,164	9,985	-83,179
1990	-93,164	-924	-8,541	-102,629	9,063	-93,566
1991	-102,629	-919	-9,149	-112,697	9,680	-103,017
1992	-112,697	-1,157	-9,340	-123,194	10,734	-112,460
1993	-123,194	-903	-8,957	-133,054	10,957	-122,097
1994	-133,054	-1,011	-8,681	-142,746	8,951	-133,795
1995	-142,746	-796	-9,125	-152,667	8,855	-143,812
1996	-\$152,667	-\$1,038	-\$10,521	-\$164,226	\$11,552	-\$152,674
Total		-\$39,327	-\$124,899			

Source: Federal Highway Administration.

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